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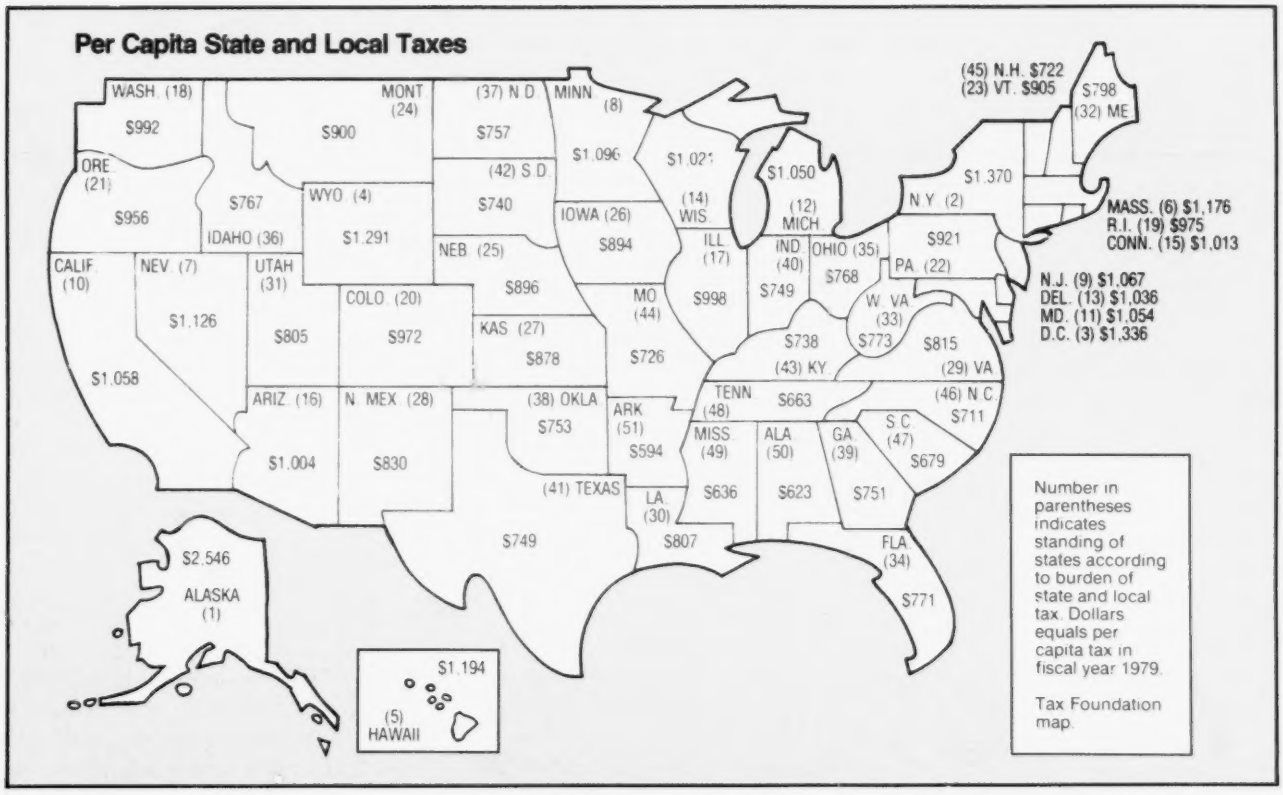

California's "Prop 13" Slows State-Local Tax Growth; Tax Increases in Rest of States Continue Unabated

Restrained by the effects of California's Proposition 13, general state and local tax revenues rose to $205.5 billion in fiscal year 1979, from $193.6 billion the previous year, an increase of only 6 percent, smaller than any previous year of the 1970s. The latest year's rise was some 5 percentage points below the 11 percent average annual increase which prevailed from 1969 through 1978.

California's state and local taxes dropped 12 percent from 1978 to 1979, reflecting a 45 percent slash in property tax yields. This sharp reduction in California, which in 1978 accounted for 14 percent of all U.S. state and local taxes, is what held the nationwide rise to 6 percent. In the remaining states, however, tax increases continued with little abatement, averaging 9 percent for 1979.

The 1979 experience notwithstanding, tax increases during the period from 1969 to 1979 were far from insignificant. State and local tax collections nearly tripled in the last decade, outpacing the growth of Federal levies and moving ahead of the growth in personal income for the period, Tax Foundation economists report.

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The Front Burner

By Robert C. Brown
Executive Vice President
Tax Foundation, Inc.

"No Room at the Top"

Compression is the "buzz word" for what is happening at the upper reaches of the Federal career Civil Service. Because of the linkage between salaries of top Federal career executives and members of Congress, there is an unrealistically low cap on compensation for some 30,000 of Uncle Sam's top managers. As a result, the government is finding it increasingly difficult to recruit and maintain a cadre of well qualified senior executives.

Unless this problem of managerial talent can be alleviated, our nation is in for a great deal of trouble. The Federal government is big; it is complex. It cannot function well unless rank-and-file employees are managed by highly qualified superiors. And like top-flight executives in private industry, the professional executive in the Civil Service expects—and deserves—compensation to match achievements, experience, and responsibilities.

The Tax Foundation has never favored wasting taxpayers' money. We have always insisted that the public is entitled to a dollar's worth of goods or services for every dollar in taxes taken from American earners.

By the same token, simple justice demands that public officials, who are rightly asked to render a close accounting of their stewardship, be paid at a fair level of compensation.

Because linkage to politically sensitive Congressional pay levels is holding their salaries down, many competent civil servants are "voting with their feet" by taking early retirement or refusing promotions to jobs where greater responsibilities would not be matched by greater pay.

The Commission on Executive, Legislative, and Judicial Salaries (Quadrennial Commission) can help to open up pay grades by recommending new pay levels and the end of linkage. The Commissioners can help convince the Congress and the public to end the compression which is driving so many talented men and women out of the public sector.

An extensive public education campaign will be needed. To mount it, the Commission would be the logical vehicle, if it were constituted as a year-round body with a professional staff.

That the laborer is worthy of his hire is a concept deeply rooted in our traditions. It remains true even when that laborer is a career bureaucrat in the Federal government. For in the government, as in the marketplace, we will most assuredly get what we pay for.

TF Seminar Discusses Taxation Of Compensation and Benefits

On Wednesday, October 22, 1980, the Tax Foundation hosted a seminar on the tax treatment of employee compensation. The seminar, open to TF members and other interested persons, was designed to highlight two critical features of the taxation of compensation: (1) the taxation of fringe benefits, and (2) the future direction and form of pension tax policy. The speakers addressing the taxation of fringe benefits were Don Ricketts, Assistant Chief of Staff for the Joint Committee on Taxation and Dale Hay, Vice President-Corporate Affairs, USAir and Chairman of the Fringe Benefits Task Force of the Tax Executives Institute. Speaking on the question of pension policy were Daniel Halperin, Deputy Assistant Secretary of the Department of Treasury; William Morris, General Counsel, Senate Finance Committee; Paul Jackson, Vice President, Wyatt Co.; and Solomon Upbin, Partner, Arthur Andersen & Co. Don Alexander, former Commissioner of the IRS and now Partner of Morgan, Lewis & Bockius, summed up the morning's talks as the luncheon speaker.

The tax treatment of employee fringe benefits will be of major concern to the 97th Congress because the freeze on attempts by the IRS to tap these sources of potential revenue expires on June 1, 1981. Don Ricketts outlined the basic options available to Congress next year. They range, he said, from yet another extension to legislation specifying which fringes are to be considered taxable and which will remain non-taxable. One approach which could yield the best results, according to Ricketts, would be for the IRS to draft and propose regulations on fringe benefits with the understanding that they would be subject to Congressional review after public comment. This would permit the greatest amount of interaction between the IRS, Congress, and the public in the drafting of workable legislation on fringe benefits. Business's interest in offering fringe benefits, Dale Hay claimed, is not primarily a way of circumventing the tax collector. The value of convenience to employers far outweighs the dollar value of most fringe benefits, he said. Hay also noted the difficulty in defining and measuring the value of fringe benefits to meet any *de minimis* rule. He also urged that business participate actively in the development of legislation.

Don Alexander echoed both Hay and Ricketts in his luncheon talk calling the present status "unsatisfactory" mostly due to the lack of uniformity in current application by IRS agents in the field.

About Tax Features

Tax Foundation, Inc., is a publicly supported, non-profit organization engaged in non-partisan research and public education on the fiscal and management aspects of government. Members of Tax Foundation are urged to pass their copies of *Tax Features* along to editors of their house publications.

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End Linkage in Federal Salaries, Brown Advises U.S. Commission

The Commission on Executive, Legislative, and Judicial Salaries invited Robert C. Brown, Executive Vice President of the Tax Foundation, Inc., to testify before the Commission on November 7. The Quadrennial Commission, as it is commonly known, meets every four years "to make recommendations to the President on the appropriate level of compensation for the Vice President of the United States, for positions in the Executive Branch from Cabinet Officer through Level V, and for U.S. House of Representatives and Senators, Supreme Court Justices and other members of the Federal Judiciary." The text of Mr. Brown's testimony follows:

STATEMENT OF
ROBERT C. BROWN
EXECUTIVE VICE PRESIDENT
TAX FOUNDATION, INC.
BEFORE THE
COMMISSION ON EXECUTIVE,
LEGISLATIVE, AND JUDICIAL
SALARIES

The Tax Foundation welcomes the opportunity to appear again before this distinguished Commission and to contribute its recommendations concerning salary schedules at the highest levels of the Executive, Legislative, and Judicial Branches of the Federal government.

We leave to others the detailed discussion of the specific salary schedules which should prevail in the various branches of government, preferring to limit our own comments to a few major policy considerations which we feel are pivotal to the ability of our nation to recruit and retain highly competent civil servants and candidates for public office.

First of all is the question of Congressional pay. We testified before this distinguished Commission in 1976 and recommended that Congress be required to hold an affirmative, recorded vote on its own pay and that of the other two branches of the Federal government. We were happy to see that procedure enacted into law in April 1977 as the so-called Bartlett Amendment to the Federal Salary Act of 1967.

The Foundation has always believed that adequate compensation for elected officials is only just. Indeed, we have encouraged a pay level which would minimize or eliminate the need for elected officials to seek to augment their Congressional salaries by outside sources of income.

The debate over Congressional pay is as old as the Constitution—in fact, older. The Founding Fathers debated this question as the Constitution itself was being framed. Their discussions, and the subsequent history of this crucial issue, lead only to one conclusion: The supreme law of the land intends that Congress set its own pay. This has always been a difficult and uncomfortable task, but it is meant to be so. No matter what "side-door" approaches the Congress has devised over the two centuries of our national existence to soften this responsibility, the burden of increasing their own salaries perennially returns to the Congress's own doorstep. For this, as for their other actions, our nation expects its elected officials to answer to their constituents.

In 1925, when Congress was debating whether to raise its annual pay from $7,500 to $10,000, Ben Johnson, Democrat of Kentucky, told his colleagues: "If my constituents should say that I am not worth $10,000 a year here, then my answer to them is, Send somebody who is." It is our wish that each Senator and Representative could take the same forthright approach every time the issue of compensation is brought before the Congress.

Having said what we believe in, it now becomes incumbent on us to indicate those procedures which do not square with this belief. I have in mind the linkage of top-echelon Executive Branch pay to the pay scale of Congress and the compression of career civil servants' salaries which this causes. The members of this Commission do not need me to remind them that this linkage occurs, by law, through the salary levels set forth in the General Schedule. We testified on this matter in 1975 before the President's Panel on Federal Compensation. In 1976, we testified on the subject again—before the last round of hearings held by your Commission. We pointed out that: "The compression problem has resulted in the loss of competent personnel in key positions through early retirement at the peak of their capabilities, and in compounding the difficulties of recruiting top-level management people for important posts." The past four years have only increased the urgency of our words.

While some 2,500 salaries are actually set by the recommendations of this Commission, over 30,000 others are indirectly affected by the review process initiated every four years by this Commission. As long as a lockstep relationship prevails between Congressional pay and top-level executive salaries in the government, we feel that the work of the Commission will be gravely hampered and the best interests of the country will not be served. A career in the bureaucracy is categorically different from that of an elected official, and Federal pay policy should recognize this important distinction.

These then are our recommendations to this Commission on Executive, Legislative, and Judicial Salaries:

- Congressional pay should be set at such a level that the need to seek outside compensation is minimized or entirely eliminated.
- Congress should continue to vote, on the record, by affirmative "yea" or "nay" vote, for its own pay level.
- All linkage between pay levels of elected officials and pay levels of career civil servants should be eliminated as soon as possible.

Once again, thank you for the opportunity to present these views before this distinguished panel of citizens.

State-Local Taxes

(Continued from page 1)

The $218.0 billion in total state-local taxes (general and other) collected in 1979, represented a 175 percent increase over the $79.3 billion taken in by states and municipalities ten years earlier. Over the same decade, say researchers at the Foundation, Federal taxes rose 145 percent, consumer prices climbed 98 percent, U.S. population grew by only 9 percent, and personal income chalked up a 158 percent gain.

At the state-local levels, general tax collections (excluding unemployment insurance) climbed 168 percent in the ten years for an all-time high of $205.5 billion. Unemployment taxes, totaling $12.5 billion in 1979, chalked up an almost fivefold increase over the ten years, to raise the overall hike in state-local tax revenues by an extra 7 percentage points.

On the average, state-local governments collected $934 per capita in general taxes in 1979, about two-and-a-half times what they were taking in a decade earlier ($380). Per capita taxes more than tripled over the decade in Alaska (up 553 percent), the District of Columbia (212 percent), South Carolina (202 percent), and Wyoming (212 percent). California's increase (96 percent) was the smallest of any state.

Tax collections per $1,000 of personal income rose 7 percent during the decade, from $112 in 1969 to $120 in 1979. Most of this increase, however, had occurred by 1973. In the latest year reported, 1978 to 1979, there was a decline of 6 percent. Over the decade as a whole, increases in taxes per $1,000 of personal income exceeded 20 percent in Connecticut (23 percent), Delaware (22 percent), the District of Columbia (38 percent), Massachusetts (25 percent), and Rhode Island (23 percent). In eight states (including California), the rise in taxes did not match personal income gains.

Tax Foundation economists point to a number of other significant features in the state-local tax picture for 1979:

- The first-year impact of Proposition 13 in California brought about a decline in per capita taxes in the Golden Gate State, from $1,227 in 1978 to $1,058 in 1979—from 38 percent above the national average to 13 percent above it.
- California dropped from fourth to tenth place among the states in the amount of taxes claimed per capita and from fourth to twenty-fifth in the amount of taxes as a share of personal income.
- Alaska continues to rank highest in per capita tax revenues in 1979 ($2,546), followed by New York ($1,370), the District of Columbia ($1,336), and Wyoming ($1,291).
- Lowest taxes, per capita, can be found in Arkansas ($594), Alabama ($623), Mississippi ($636), Tennessee ($663), and South Carolina ($679).

The accompanying map and table provide details for state-local tax collections for 1969 and 1979.

State-Local Taxes by State[a]
Per Capita and Per $1,000 of Personal Income
Fiscal Years 1969 and 1979

State	Per capita taxes: Amount 1969	Amount 1979	Percent increase	Rank 1979	Taxes per $1,000 of personal income: Amount 1969	Amount 1979	Percent increase	Rank 1979
U.S. AVERAGE	$380	$ 934	146	—	$112	$120	7	—
Alabama	224	623	178	50	95	100	5	46
Alaska	390	2,546	553	1	97	234	141	1
Arizona	387	1,004	159	16	130	142	9	6
Arkansas	221	594	169	51	96	99	3	49
California	540	1,058	96	10	137	121	-12	25
Colorado	386	972	152	20	119	125	5	18
Connecticut	392	1,013	158	15	93	114	23	30
Delaware	372	1,036	178	13	99	121	22	24
Florida	330	771	134	34	107	105	-2	43
Georgia	270	751	178	39	98	113	15	32
Hawaii	480	1,194	149	5	141	146	4	5
Idaho	328	767	134	36	126	113	-10	31
Illinois	373	998	168	17	94	112	19	35
Indiana	334	749	124	40	99	98	-1	50
Iowa	389	894	130	26	119	112	-6	36
Kansas	346	878	154	27	106	112	6	34
Kentucky	278	738	165	43	105	113	8	33
Louisiana	298	807	171	30	114	122	7	22
Maine	308	798	159	32	109	128	17	15
Maryland	411	1,054	156	11	110	126	15	17
Massachusetts	453	1,176	160	6	118	148	25	4
Michigan	428	1,050	145	12	117	124	6	19
Minnesota	406	1,096	170	8	123	140	14	7
Mississippi	242	636	163	49	117	116	-1	29
Missouri	301	726	141	44	93	99	6	48
Montana	351	900	156	24	120	134	12	10
Nebraska	362	896	148	25	113	119	5	27
Nevada	466	1,126	142	7	120	127	6	16
New Hampshire	299	722	141	45	94	100	6	45
New Jersey	406	1,067	163	9	103	122	18	21
New Mexico	324	830	156	28	121	129	7	13
New York	576	1,370	138	2	140	166	19	2
North Carolina	259	711	175	46	99	109	10	37
North Dakota	338	757	124	37	121	106	-12	41
Ohio	306	768	151	35	88	98	11	50
Oklahoma	287	753	162	38	102	106	4	42
Oregon	387	956	147	21	118	122	3	20
Pennsylvania	340	921	171	22	100	119	19	26
Rhode Island	379	975	157	19	106	130	23	12
South Carolina	225	679	202	47	95	109	15	38
South Dakota	353	740	110	42	123	108	-12	39
Tennessee	252	663	163	48	98	102	4	44
Texas	276	749	171	41	93	100	8	47
Utah	327	805	146	31	119	128	8	14
Vermont	384	905	136	23	129	140	9	8
Virginia	314	815	160	29	104	107	3	40
Washington	410	992	142	18	115	121	5	23
West Virginia	263	773	194	33	107	118	10	28
Wisconsin	439	1,021	133	14	131	137	5	9
Wyoming	414	1,291	212	4	132	159	20	3
District of Columbia	428	1,336	212	3	95	131	38	11

[a]Excludes unemployment compensation taxes.
Source: Bureau of the Census, U.S. Department of Commerce, and Tax Foundation computations.